

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2015

Docket No. ACR2015

**UNITED STATES POSTAL SERVICE REPLY COMMENTS REGARDING  
FY 2015 PERFORMANCE REPORT AND FY 2016 PERFORMANCE PLAN**  
(March 8, 2016)

**I. INTRODUCTION**

In Order No. 2342, the Postal Regulatory Commission (“Commission”) established a separate comment period regarding the United States Postal Service’s Fiscal Year (“FY”) 2014 Performance Report and FY 2015 Performance Plan (“Performance Report and Performance Plan”).<sup>1</sup> Consistent with this order, on February 26, 2016, the Public Representative filed comments (“PR Comments”) on the Postal Service’s 2015 Performance Report and 2016 Performance Plan.<sup>2</sup>

The Commission is charged with the responsibility of evaluating whether the Postal Service has sufficiently complied with the provisions of 39 U.S.C. Sections 2803 and 2804, which concern the contents and presentation of the Performance Plan and Performance Report. This authority is limited as merely evaluative. The Public Representative argues that the Postal Service has fallen short in reaching the goals it has established pursuant to Section 2803, noting that the Postal Service has not met a number of performance indicators for its established goals: Deliver High-Quality

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<sup>1</sup> PRC Order No. 2342, Notice Regarding the Postal Service’s FY 2014 Performance Report and FY 2015 Performance Plan, Docket No. ACR2014 (Feb. 3, 2015).

<sup>2</sup> Public Representative Initial Comments on the FY 2015 Performance Report and FY 2016 Performance Plan, Docket No. ACR2015 (“PR Comments”).

Services, Provide Excellent Customer Experiences, Ensure a Safe Workplace and Engaged Workforce, and Sustain Controllable Income. The Public Representative also asserts that, while the Postal Service's 2016 Performance Plan has met the requirements of Section 2803, its 2015 Performance Report has not fully complied with Section 2804. The Postal Service hereby submits these reply comments.

## **II. DELIVER HIGH-QUALITY SERVICES GOAL**

### **A. Performance Report and Plan**

The Public Representative raises concerns in connection with the Deliver High-Quality Service goal. In many instances, the Postal Service has already publicly addressed the issues the Public Representative raises through its responses to Chairman's Information Requests (ChIRs) and through internal measures designed to improve service.

The Public Representative asserts that service performance targets are not met for any of the performance indicators the Postal Service uses to measure the Deliver High-Quality Services Goal. As noted in the Postal Service's 2015 Annual Report, implementation of major processing efficiency initiatives in 2015 resulted in tremendous shifts in employee resource work schedules. During the transition of these complement and scheduling realignments, service performance target indicators used to measure for the Deliver High-Quality Services Goal realized initial deterioration. The Postal Service has since made improvements.

As stated in the Postal Service's January 19, 2016 response to ChIR No. 2 Question 19, in 2015 a lack of service-responsive aircraft capacity to support shifting

volume as a result of Phase 2 network rationalization caused transportation capacity constraints. Existing dedicated air network integrators and commercial carriers were not able to fulfill service-responsive capacity needs. As also referenced in the Postal Service's February 16, 2016 response to ChIR No. 11 Question 1d, these network constraints also impacted mail arriving at destination prior to Critical Entry Time (CET). Additionally, in some instances, surface transportation between specific origin-destination pairs was not aligned to enter by destination CET. The gap in air capacity in Quarter 2 of 2015 correlates with the service performance trend, which improved over Quarters 3 and 4, as the gap was closed.

At page four of her comments, the Public Representative states that the highest gaps between actual service and applicable targets are for Presort First-Class Mail and Single-Piece First-Class Mail with a three-to-five day delivery standard. Two-day First-Class Mail relies on surface transportation. In contrast, the three-to-five day First-Class Mail relies on a combination of both surface and air carriers. Any service impacts resulting from shortfalls in the air network would manifest most significantly in performance for three-to-five day First-Class Mail and not in such mail with a two-day service standard. The difference in the transportation modes utilized for these products depends on the applicable service standard and explains why the three-to-five day performance scores have experienced a larger gap between actual performance and target. All postal Districts/Areas were impacted by the constraints in the air network with respect to three-to-five day service performance.

The Public Representative also asserts that despite the Postal Service's justification for performance scores, inclement weather is not a sufficient justification for

a failure to meet performance goals on an annual basis. PR Comments at 6. The Postal Service did not report that bad weather was the sole justification for not meeting the service goals on an annual basis. As the 2015 Performance Report makes clear, growth in package mail (which led to rebalancing of air and surface networks), efficiency-based employee complement shifts, and necessary delays in changes to the processing network, have all contributed to lower-than-anticipated service performance scores.<sup>3</sup> However, as stated in the January 29, 2016 response to ChIR No. 6 Question 21, all market-dominant products, including the service performance target indicators used to measure for the Deliver High-Quality Services Goal, were impacted specifically in Quarter 2 by the long and severe period of wintry weather in the Northeast and Great Lakes Areas, as well as the ice storm in Memphis, which had national impact. These events, in addition to the aforementioned complement and scheduling realignments and network constraints, collectively contributed to the Postal Service's performance in satisfying service goals.

The Public Representative states that she cannot conclude that the Postal Service followed the Commission directives to "consider analysis of impact of times and areas impacted by severe weather" in the FY 2015 Performance Report and FY 2016 Performance Plan. PR Comments at 6. This is a misunderstanding of the Commission's statement. In fact, the Commission stated that, "[i]f substantially lower service performance in quarters 1 and 2 pulled down the average for the entire fiscal year such that the FY 2014 targets were not met, the Postal Service should consider..." Docket No. ACR2014, Postal Regulatory Commission Analysis of the Postal Service's

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<sup>3</sup> USPS-FY-17, 2015 Annual Report and Comprehensive Statement of Postal Operations (Annual Report), at 15.

FY 2014 Program Performance Report and FY 2015 Performance Plan at 21 July 7, 2015. The statement referenced by the Public Representative was not a directive, but a suggestion. The Postal Service respectfully reemphasizes that the Commission's role in the Annual Compliance Review docket is one of evaluator. Thus, the Postal Service may take Commission suggestions under advisement in its efforts to effectuate its corporate-wide goals.

Based upon the Postal Service's past performance, the Public Representative notes her reservations regarding the Postal Service's ability to meet its FY 2016 service performance targets and suggests that the 2016 targets are unrealistic. PR Comments at 8. Service performance targets are set based upon prior levels of achievement, customer expectations, and the ability to achieve those targets. While the FY 2016 targets for First-Class Mail may appear challenging based upon the performance in FY 2015, they are not as challenging when compared to prior years. The Commission has often acknowledged in its Annual Compliance Determinations (ACDs) the Postal Service's willingness to establish and pursue challenging service targets.

In the FY 2015 Annual Report, the Postal Service states, "that the eventual completion of the second phase of the network consolidation project in FY2016, coupled with current efforts to re-balance our air and surface networks, will improve overall service performance and allow the Postal Service to meet its targets." Annual Report at 15. While the implementation of Phase 2 of the network consolidation effort caused initial disruptions, the eventual completion of the network consolidations is a piece in the broader strategy to improve service performance and target achievement. Although

network consolidations are in a deferred status, the Postal Service is confident that the positive impacts from the planned service improvements will be achieved.

While the Postal Service did not meet its established targets in FY 2015, it faced a number of unique challenges, as previously stated in its ACR 2015 Reply Comments (February 12, 2016). The Postal Service has a comprehensive plan in place to improve service performance and has developed several strategies to mitigate adverse impacts. The plan is yielding results. Management is committed to service improvement and has deployed critical resources to meet the challenge.

#### **B. Compliance with 39 U.S.C. § 2804**

The Public Representative asserts that the Postal Service has not fully complied with the provisions of 39 U.S.C. § 2804(d)(2) because the 2015 Performance Report and 2016 Performance Plan lacks a comparison between FY 2016 targets with FY 2015 results for certain aspects of the corporate-wide goals, including Delivery of High-Quality Services - specifically, as it pertains to comparison of the FY 2016 target with the FY 2015 actual results for Single-Piece First-Class Mail Overnight service performance measurement. PR Comments at 19. The Postal Service notes that the Annual Report does provide an analysis of its results for FY 2015 and targets for FY 2016.<sup>4</sup> Thus, the issue is not one of statutory compliance, but of sufficiency of data with respect to Single-Piece First-Class Mail Overnight service performance measurement. The Postal Service asserts that its compliance with 39 U.S.C. § 2804(d)(2) is legally sufficient, as it has provided Congress and the public with adequate information to make an assessment as to whether or not the Postal Service is both meeting its goals and making strides towards improvement.

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<sup>4</sup> See Annual Report, pp. 14-22

### **C. Clarification of Fiscal Year 2014 Composite Score Data**

In the final paragraph of page five of her Initial Comments, the Public Representative solicits an explanation from the Postal Service for an apparent discrepancy in successive reports reflecting FY 2014 First-Class Mail Composite and Standard Mail Composite scores. Comparing the USPS Annual Reports for FY 2014 and 2015 (at pages 39 and 14, respectively), the Public Representative observes that the First-Class Mail Composite score for FY 2014 is reported as a different figure in each Annual Report, and makes the same observation regarding the FY 2014 Standard Mail Composite score.<sup>5</sup>

The Postal Service confirms that the successive Annual Reports, as originally published, do not consistently reflect the aforementioned FY 2014 Composite scores. At the time of production of the 2014 Annual Report, incorrect Composite scores were erroneously included in the “U.S. Postal Service FY2014 Results and FY2015 Targets for Corporate-wide Goals” table on page 39. The Postal Service filed that Annual Report as Folder USPS-FY14-17 to accompany its FY 2014 Annual Compliance Report in Docket No. ACR2014. The Composite score errors were subsequently discovered and corrected in the version of the 2014 Annual Report posted at [www.usps.com](http://www.usps.com). No correction was made to the record in that docket. During preparation of the “U.S. Postal Service FY2015 Results and FY2016 Targets for Corporate-wide Goals” table for its FY 2015 Annual Report, the Postal Service incorporated the correct FY 2014 First-Class Mail Composite and Standard Mail Composite scores.

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<sup>5</sup> The Public Representative also observes that the FY 2014 USPS Annual Report Composite scores are incorporated in Table I-1 on page 3 of the Commission’s Analysis of the Postal Service’s FY 2014 Program Performance Report and FY 2015 Performance Plan (July 7, 2015).

### **III. PROVIDE EXCELLENT CUSTOMER EXPERIENCES**

#### **A. Performance Report and Plan**

The Public Representative asserts that the Postal Service did not meet its Provide Excellent Customer Experiences performance goal. In response, the Postal Service notes that the Customer Insights (CI) survey results at the conclusion of the fiscal year achieved a composite score of 85.73 percent, as compared to the target of 86.70 percent. Even though this result narrowly missed the target by less than one percent, the Postal Service can point to substantial improvements in the response rates of various CI survey components, which provide a more accurate picture of customer insights and experiences. For example, Point of Sale (POS) survey responses have increased from 173,290 in FY 2014 to 841,905 in FY 2015 through expanded customer participation access points and increased focus and attention placed upon participation.

The Postal Service acknowledges the Public Representative's recommendation for improved transparency and has determined that the CI subcomponents will share the overall composite score targets for the CI measurement. However, it should be noted that customer experience is measured across four touch points, which are then weighted and aggregated to create a national composite CI score. The modular components and flexible design of the national composite CI score allow expansion and inclusion of additional points of contact to meet the quickly changing customer landscape. To support the Postal Service's mission of delivering excellent customer service, the CI composite score is a component of the Postal Service's National Performance Assessment (NPA) system, which links the CI performance score and the employee Pay-for-Performance system. This emphasizes that each and every



employee is responsible for ensuring that Postal Service customers receive exceptional service. **B. Compliance with 39 U.S.C. § 2804**

Through administration of the CI survey, the Postal Service has implemented more efficient means of tracking data related to customer experiences and the resulting reports comply with section 2804(d)(2). The Public Representative states that the Postal Service ignored the Commission's directive to compare results between its Customer Experience Measurement (CEM) system and the new CI surveys for similar customer experiences. PR Comments at 11 and 18. The Postal Service respectfully disagrees with this assertion. In its January 21, 2015 response to Chairman's Information Request No. 3 Question 5c, the Postal Service has acknowledged the Commission's desire for data demonstrating comparability between the CEM and the CI surveys. However, the only accurate means of comparing CEM and CI results would be to administer both systems simultaneously. This would be an overly burdensome and inefficient weight on limited Postal Service resources. See Postal Service FY 2015 Annual Compliance Report at 61 and 62. Satisfying such a standard would require the execution of parallel measurement systems for three years; the Postal Service asserts that this is a needless waste of resources, especially since it has determined that the new CI system, while not comparable to the CEM system, is a better indicator of customer satisfaction. *Id.*

Furthermore, 39 U.S.C. § 2804 does not require the Postal Service to provide comparable data between such systems: section 2804(c) does not mandate that each year's "actual results" be comparable to those of other fiscal years. While it recognizes the value of comparability, the Postal Service has adopted improved measurement

systems like CI to improve customer service (the Postal Pulse survey has replaced Voice of the Employee (VOE) for similar reasons in the area of workforce engagement). These changes have impacted the comparability of survey results for certain fiscal years. *Id.* at 61-62.

#### **IV. ENSURE A SAFE WORKPLACE AND ENGAGED WORKFORCE**

##### **A. Performance Report and Plan**

The Public Representative has criticized the utilization of the Postal Pulse survey as a means of collecting data related to the Ensure a Safe Workplace and Engaged Workforce goal. Specifically, the Public Representative states that the Postal Pulse survey does not allow for direct comparison between its results and the results of the VOE survey. PR Initial Comments at 12. For essentially the same reasons as noted above in Section III with respect to Customer Insight and Customer Experience Measurement, it would not make sense to run parallel measurement systems in the area of employee engagement. Scores from the VOE survey are not directly comparable to scores from the Postal Pulse survey, as they measure employee perceptions of different facets of the workplace environment. As previously explained, the Postal Service began administering the Postal Pulse survey in place of the VOE because the former is a more streamlined survey, which provides improved capability for more detailed reporting and data analytics.<sup>6</sup> This allows for teams and work units to address individualized results by taking specific and relevant action. In utilizing the

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<sup>6</sup> Docket No. ACR2015, Library Reference USPS-FY-17, December 29, 2015, United States Postal Service Annual Report to Congress at 15 (FY 2015 Annual Report).

Postal Pulse survey, the Postal Service is better able to make systemic, incremental improvements as they relate to developing a safer and more engaged workforce.

## **B. Compliance with 39 U.S.C. § 2804**

The Postal Service recognizes the Public Representative's criticism that the Postal Service has not reported numeric Postal Pulse targets for Fiscal Year 2016. Actual results for 2015 were provided in response to ChIR No. 13.<sup>7</sup> Fiscal Year 2016 targets were not established because the Postal Pulse is a new survey, which is ordinarily administered twice per year. However, given the timing of the adoption of the Postal Pulse survey as its measure for workplace environment indicators, the Postal Service was able to administer the Postal Pulse only once in Fiscal Year 2015. To adequately establish baseline performance, the Postal Service deems it necessary to administer the Postal Pulse survey for a full cycle (*i.e.*, twice) in order to effectively establish targets. Thus, the Postal Service was unable to evaluate FY 2016 targets in relation to FY 2015 performance.

## **V. SUSTAIN CONTROLLABLE INCOME GOAL**

The Public Representative fails to take into account the variability of the myriad factors contributing to the Postal Service's ability to meet the Sustain Controllable Income Goal. While the Public Representative believes that the majority, if not all, of the factors for failing to meet the FY 2015 Deliveries Per Hour (DPH) targets should have been considered within the Postal Service's operations, the FY 2015 DPH target was based upon the expected impacts of the elements known at the time of developing the plan. The Postal Service was not aware that volume, delivery points, and Sunday

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<sup>7</sup> Responses of the United States Postal Service to Questions 13-15 and 19 of Chairman's Information Request No. 13, February 26, 2016, ChIR.13.Q.14.Resp.Postal\_Pulse.xls.

packages would exceed the levels that were planned. Nor could the Postal Service have forecasted delays in plant consolidations or the need to spend additional work hours to improve service. Furthermore, the Postal Service expected to achieve the Phase 2 Network Rationalization savings, and had to account for a labor arbitration ruling, which increased work hour usage in Level 18 offices.

The Public Representative's comments at page 14 regarding the DPH target introduce a measure of confusion to the discussion. The DPH target is a product of the targeted work hour impacts from efficiency initiatives, expected volume, and delivery prompt workload. The original FY 2014 DPH target was 43.3. Based on the Network Rationalization delay, the Postal Service adjusted the FY 2014 target commensurate with its impact to 42.9, and the Postal Service concluded that year with 42.0 deliveries per hour. For FY 2015, the Postal Service established a DPH target of 42.4 and pursued that target throughout the year. The Public Representative's review of FY 2015 is premised upon the mistake assertion of the existence of a 42.2 target. It is not clear what criticism the Public Representative might have offered had it been based on correct FY 2015 DPH figures, or what if any rebuttal would be appropriate.

While the Postal Service recognizes that it has not met its DPH target in the past five years, additional work hours, resulting from greater volumes than planned, have brought revenues in excess of the added cost, and have helped to improve the Postal Service's financial performance. Additionally, achieving the target for the Controllable Income metric involves efforts on both the revenue and expense side. Although the Postal Service is working hard to capture work hour savings from Network Rationalization, equipment purchases, and other efficiency improvement initiatives,

Postal Service efforts to increase revenue have resulted in losses in the DPH metric. Significant growth in package volume and the slowing of declines in First-Class Mail have caused work hours to overrun plan, thereby negatively impacting DPH. In order to meet its FY 2016 targets, the Postal Service will continue to pursue work hour reductions which affect both metrics, but will also continue to maximize the non-career and Tier 2 career workforce, and focus on controlling non-personnel-related spending and transportation usage. The Postal Service acknowledges that the DPH metric helps drive controllable income. However, since the Postal Service exceeded the actual Controllable Income target for the year, the Postal Service has met its Sustain Controllable Income goal.

## **VI. SUFFICIENCY OF PERFORMANCE PLAN UNDER 39 U.S.C. § 2803**

The Public Representative concludes that the Postal Service's 2016 Performance Plan complies with Section 2803. PR Initial Comments at 17. However, citing the Commission's Fiscal Year 2014 Analysis, the Public Representative claims the Postal Service "has not included any requested information [as to "program activities"] in the FY 2015 Performance Report and FY 2016 Performance Plan, but provided it in the Response to CHIR No. 5"; and that "in the future, [it should] include the required information in its Performance Report and Plan." *Id.* at 18.

The Postal Service would point out that its response to Chairman's Information Request (CHIR) No. 5 Question 1 clearly asserted that its Performance Plan "has met the broad requirements of 39 U.S.C. §2803" by addressing "each of the four Corporate-wide Goals [*i.e.*, Deliver High-Quality Services, Provide Excellent Customer

Experiences, Ensure a Safe Workplace and Engaged Workforce, and Sustain Controllable Income]....” Postal Service Response to ChIR No. 5, Question 1. The Postal Service also determined that its Performance Plan had already met the requirements of 2803 “even using the alternative definition of the term ‘program activity’ utilized in the ... GPRA (31 U.S.C. § 1101 *et seq.*) that applies to other federal agencies.” *Id.* Specifically, the Postal Service pointed to program activities listed in the United States Budget for the Postal Service, and then noted how its Performance Plan has already met the requirements of 39 U.S.C. § 2803 “by subsuming [the U.S. Budget program activities] within the agency’s Corporate-wide Goal of Sustaining Controllable Income....” Thus, the Postal Service continues to maintain that its 2016 Performance Plan had already met the requirements of Section 2803, even before it clarified matters in its response to ChIR No. 5.

## **VII. Strategic Initiatives**

The Public Representative is also concerned about the level of detail provided regarding the strategic initiatives. PR Initial Comments at 20-21. Similar to past years, the Public Representative appears to be imposing the requirements of 39 U.S.C. Sections 2803 and 2804 on the sections of the Comprehensive Statement on Postal Operations that address the strategic initiatives. As the Postal Service explained previously in response to the Public Representative’s comments in Docket No. ACR2013, while the strategic initiatives are designed to assist the Postal Service in achieving its corporate goals, they are provided as part of a broader strategic plan to achieve these goals, rather than as a required part of the Performance Report and

Performance Plan. Reply Comments of the United States Postal Service on FY 2013 Performance Report and FY 2014 Performance Plan, at pp. 4-5. More specifically, strategic initiatives are temporary projects through which the Postal Service seeks to achieve the corporate goals, which are tracked indicators of the Postal Service's overall performance. Because they function more independently as projects rather than general performance indicators, strategic initiatives are presented and discussed in the Comprehensive Statement, and not in the portion of the Annual Report to Congress containing the Performance Report and Performance Plan.

### **VIII. Conclusion**

In her Initial Comments on the Postal Service's FY 2015 Performance Report and FY 2016 Performance Plan, the Public Representative at times appears to look beyond statutory requirements in criticizing the Postal Service's performance in FY 2015. While the Postal Service admittedly experienced considerable challenges in 2015 and did not meet all established goals, it has set into motion a reasonable approach to address those challenges as it works towards its four Corporate-wide goals in 2016. In addition, the Postal Service has pointed to significant improvement in certain aspects of its overall performance for these goals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony Alverno  
Chief Counsel  
Global Business and Service Development  
Corporate and Postal Business Law Section

B. J. Meadows III  
Susan Walker  
Michael Tidwell  
Attorneys

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1137  
(202) 268-6036; Fax -5628  
Susan.J.Walker@usps.gov  
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